

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner

In the Matter of the Review of the 2003 Annual
Automatic Adjustment of Charges for all Gas
and Electric Utilities

ISSUE DATE: June 17, 2004

DOCKET NO. G, E-999/AA-03-1264

ORDER ACCEPTING ELECTRIC
UTILITIES' 2003 ANNUAL AUTOMATIC
ADJUSTMENT REPORTS

PROCEDURAL HISTORY

Minn. Stat. § 216B.16, subd. 7 and Minn. Rules, parts 7825.2390 through 7825.2920 allow regulated electric utilities to adjust their rates between general rate cases to reflect varying prices for fuel purchased to generate electricity for ratepayers. These are referred to as automatic adjustments and generally take place on a monthly basis without prior Commission action.

The rules require utilities making automatic adjustments to submit several filings each year on September 1. The reports filed provide information on automatic adjustments made during the preceding July 1 through July 30 period.

Annual Automatic Adjustment (AAA) reports were filed by the following Minnesota electric utilities:¹

- Dakota Electric Association (DEA);
- Interstate Power Company - Electric Utility (Interstate);
- Minnesota Power (MP);
- Otter Tail Power Company (Otter Tail); and
- Northern States Power Company d/b/a Xcel Energy, Incorporated - Electric Utility (Xcel).

On February 27, 2004, the Department of Commerce (DOC) submitted its review of the 2002-2003 AAA reports. On March 8, 2004, the DOC submitted revisions to its report.

¹ The gas utilities' AAA reports and annual true-up filings will be brought to the Commission at a later date.

On April 15, 2004, Xcel filed reply comments addressing eastern Wisconsin transmission related problems. Xcel also indicated that its responses on the Renewable Development Fund (RDF) cost recovery issue were filed in Docket No. E-002/M-01-1583.

None of the other electric companies submitted reply comments.

On May 5, 2004, the DOC filed reply comments.

On May 27, 2004, this matter came before the Commission.

FINDINGS AND CONCLUSIONS

This Order addresses only the AAA reports of the electric utilities cited above.

I. The DOC's Review of AAA Reports of the Electric Utilities

The Department's review of the AAA reports focused on whether the utilities had, from July 1, 2002 to June 30, 2003, accurately adjusted their energy rates to reflect changes in fuel cost. The review included an analysis of procurement policies, dispatching procedures, cost-minimizing efforts, adjustment computations, auditors' reports, and fuel-cost projections.

The DOC found that, generally, the electric utilities strive to purchase fuel, fuel transportation, and power from other electric generation resources, all of which are included in the utilities' fuel costs, at the lowest price within the constraints of environmental regulations. All of the utilities' dispatching procedures include a systematic review of alternatives using various computer programs to help in their decision making.

Further, the DOC reported that the utilities have pursued various forms of cost-minimization activities. These efforts included: competitive bidding, load-management and energy-conservation programs, customer energy buy-back programs to avoid high spot-market prices, use of financial energy futures to hedge against the risks of unexpected high energy costs, monitoring of all plant- and fuel-related data, use of the latest computer programs and analytical techniques, and structuring fuel and transportation contracts to follow the market.

The DOC found that overall, Interstate and Otter Tail experienced greater fluctuations in their monthly fuel cost recoveries during 2003 compared with such recoveries during the prior year. This deviation, it found, was primarily due to colder weather. However, both Interstate and Otter Tail under-recovered fuel costs for the year so that during this reporting period customers did not pay more for fuel than warranted.

Further, the DOC stated that it expected that there will be a more accurate matching of DEA's fuel costs and recovery once DEA's new rates from its recent rate case were in place for a reasonable

time period.² For the current reporting period, DEA's monthly over-and under-recovery reflects DEA's power supplier's seasonal rate design imposed on DEA's non-seasonal recovery.

The DOC found that Interstate's pattern of monthly over-and under recovery was consistent with the seasonal variations in costs on Interstate's system, combined with a fuel clause adjustment (FCA) based on a two-month historical average of costs. The DOC indicated that as IPL's rates are updated,³ the need to recover fuel costs in the FCA should decrease.

Finally, Xcel found that MP's and Xcel's overall cost recoveries over the year were within one percent of costs.

The DOC believes that the AAA reports submitted by the utilities were in general compliance with Minnesota Rules and recommended acceptance of the reports and the compliance filings submitted with the reports. In addition, the DOC made the following recommendations:

- that Interstate not be required to pursue the use of a forecasted fuel clause adjustment;
- that it is not necessary for Otter Tail to institute a monthly or annual true-up since Otter Tail's cumulative over-recovery has been significantly reduced in recent years;
- that Xcel submit a written request to its external auditor that, in the preparation of the auditor's report that will be submitted with Xcel Electric's fiscal year 2004 AAA reports, the external auditor must specifically examine whether Xcel is correctly accounting for gas financial instruments used to support wholesale electric transactions and ensure that the accounting separation is implemented properly.⁴

II. Commission Action

² In its December 15, 2003 Order in Docket No. E111/GR-03-261 the Commission approved the implementation of seasonal demand and energy rates for DEA. The seasonal rates established higher rates during June, July and August relative to rates for the remainder of the year.

³ *In the Matter of a Petition by Interstate Power and Light Company for Authority to Increase Electric Rates in Minnesota*, Docket No. E-001/GR-03-767, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER; ORDER MODIFYING SETTLEMENT (April 5, 2004). Request for Reconsideration and Notice of Rejection of Modification to Settlement filed April 15, 2004.

⁴ This requirement was first established in Docket No. E-002/M-01-1953, *In the Matter of a Request by Northern States Power Company d/b/a Xcel Energy for Commission Approval of Gas Financial Instruments for Wholesale Electric Transactions*.

Based on the DOC's review and recommendations, and its own review of the utilities' 2003 AAA reports and the associated compliance filings, the Commission accepts them as filed.

In its Order acting on the gas and electric utilities' 2002 AAA reports, the Commission required Interstate to provide further analysis of whether it may benefit from a forecasted adjustment mechanism at some point in the future, as opposed to the historical fuel cost method. Accordingly, Interstate included a section in its 2003 AAA report addressing this requirement. Interstate concluded, and the DOC agreed, that, although Interstate's forecasting and true-up methods have improved since its analysis in its 2002 AAA report, it is not clear that the forecasting mechanism is more accurate or preferable to the historical fuel clause adjustment mechanism. For this reason the DOC did not recommend that Interstate be required to implement a forecasted fuel adjustment. The Commission agrees and will not require that Interstate continue to investigate the use of a forecasted fuel clause adjustment mechanism.

The DOC stated that it was not necessary for Otter Tail to institute either a monthly or annual true-up because Otter Tail's cumulative over-recovery has been significantly reduced in recent years. However, Otter Tail proposed an annual true-up of its fuel costs in the docket established to review Otter Tail's fuel clause adjustment mechanism.⁵ The Commission will take no action on this matter in the present docket and will defer the matter to the Otter Tail true-up investigation docket.

Xcel submitted its renewable development fund (RDF) compliance filing with its AAA report. The DOC issued comments on the funding of the AnAerobics, Inc. project. However, the Commission will not address this matter in the present docket. Instead, it will be addressed by the Commission in the RDF docket.⁶ Doing so will ensure that all parties in the RDF docket are informed of, and have an opportunity to comment on this issue.

The Commission will continue to require that Xcel submit a written request to its external auditor that the auditor, in the preparation of the auditor's report that will be submitted with Xcel Electric's fiscal year 2004 AAA reports, must specifically examine whether Xcel is correctly accounting for gas financial instruments used to support wholesale electric transactions and ensure that the accounting separation is implemented properly. The Commission will make this a standing requirement that does not require renewal each year. However, Xcel or the DOC may request that it be discontinued at any time for cause.

Finally, the Commission will accept the comments filed by Xcel on eastern Wisconsin transmission related problems.

ORDER

⁵ Docket No. E017/M-03-30 , *In the Matter of Otter Tail Power Company's Petition for Approval of a Monthly Fuel Clause Adjustment True-Up Mechanism*.

⁶ In the Matter of the Request of Northern States Power Company d/b/a Xcel Energy for Approval of a Renewable development Fund Oversight Process, Docket No. E-002/M-00-1583.

1. The Commission accepts the fiscal year 2003 annual automatic adjustment reports as filed, revised and supplemented by the electric utilities as being in general compliance with Minn. Rules parts 7825.2390 through 7825.2920.
2. The Commission also accepts the compliance filings submitted with the fiscal year 2003 annual automatic adjustment reports as being in general compliance with Commission orders.
3. Interstate is no longer required to investigate the use of a forecasted fuel clause adjustment.
4. The Commission defers the issue of a true-up requirement for Otter Tail to the Otter Tail true-up investigation, in Docket No. E-017/M-03-30.
5. The Commission defers any action on the funding of the AnAerobics Inc. project through Xcel's renewable development fund to Docket No. E-002/M-00-1583.
6. In preparing all future AAA reports, Xcel shall submit a written request to its external auditor requiring that the auditor, in the preparation of the auditor's report that will be submitted with Xcel Electric's AAA reports, must specifically examine whether Xcel is correctly accounting for gas financial instruments used to support wholesale electric transactions and ensure that the accounting separation is implemented appropriately.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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